Food Fair Stores, Inc. Annual Report 1972

"When the history of the 20th Century is written, the contribution of the retail food industry to the nation's economy and to the high standard of living Americans enjoy today will rank as an achievement of the highest magnitude . . ."*

**From Letter to Shareholders. See following pages.*

ANNUAL MEETING

The annual meeting of shareholders will be held Tuesday, November 21, 1972, at 2 P.M., local time, in the North Cameo Room of the Bellevue Stratford Hotel, Broad and Walnut Sts., Philadelphia. Shareholders are cordially invited to attend.

To Our Shareholders:

The year just ended was a difficult one for the Company. A modest improvement in first-half earnings over the comparable 1971 period raised hopeful expectations for a successful year. However, a combination of events in the second half, accentuated by a supermarket price war in our major marketing areas, caused a substantial loss in the fourth quarter, sharply reducing earnings for the full year.

Your management's response to the intense price competition was an aggressive merchandising program to protect our sales. We were successful in this effort, but it necessitated increased promotional costs and a lowering of gross profit margins at a time we were faced with higher labor costs and increased store expenses.

Additional factors contributing to reduced earnings were Phase II price controls, a strike by meatcutters in Florida and a wildcat walk-out of warehousemen in Philadelphia.

Our J. M. Fields department store division profits were lowered due to increased competition, as well as the absorption of start-up costs required to open a record number of new units.

In planning for sound, future growth, your management has begun to phase out certain unprofitable operations. We are already liquidating our west coast supermarket operation which has not been profitable. We have terminated an unprofitable joint venture with Horn & Hardart Baking Company of Philadelphia, effective with the start of the current fiscal year. We have closed during the fiscal year 54 unprofitable, outmoded or marginal supermarkets.

Louis Stein
Chairman of the Board

Jack Friedland
President

The costs incurred and expected to be incurred in discontinuing these operations are reflected in the 1972 fiscal year earnings.

We are also continuing an extensive Company-wide cost reduction program begun last year which has achieved substantial savings in all operations.

We believe that the measures we have taken were wise, and will prove beneficial to the Company's growth and profitability in the future.

We are pleased to report that preliminary estimates of results achieved thus far in the first fiscal quarter of the new year which began July 30, 1972, show a return to profitability from the loss incurred in the final quarter of last year.

Our financial position is sound with working capital adequate to meet our requirements.

Our discount supermarket merchandising concept has met with excellent consumer acceptance and increased sales. We expect to convert our remaining conventional supermarkets to discounting before the end of the current fiscal year. We are also confident that our J. M. Fields department stores will increase their contribution to the Company's growth.

In the year just past, many unjust and unfounded charges concerning food prices have been leveled against the supermarket industry. We believe a reply is in order.

These are the facts: The average American family spends less for food than ever before .... thanks to economies in food distribution pioneered by supermarkets. Twenty years ago, the typical American family spent nearly 23% of its take-home pay on food purchases. Today, that family will spend only 15.6% of take-home pay for food, the lowest percentage of income spent for food in any nation in the world.

This reduction in food distributive costs has released billions of dollars for consumers to spend for a variety of other merchandise and services. It is a record, compiled over the last four decades, which clearly demonstrates the essential role of the retail food industry in the nation's economy.

We believe that when the history of the 20th Century is written, the contribution of the retail food industry to the nation's economy and to the high standard of living Americans enjoy today will rank as an achievement of the highest magnitude.

In closing, we wish to express our appreciation and thanks to our millions of customers for their patronage, and for the loyalty, support and encouragement of our directors, officers and 30,000 co-workers whose contributions are so vital to the Company's progress.

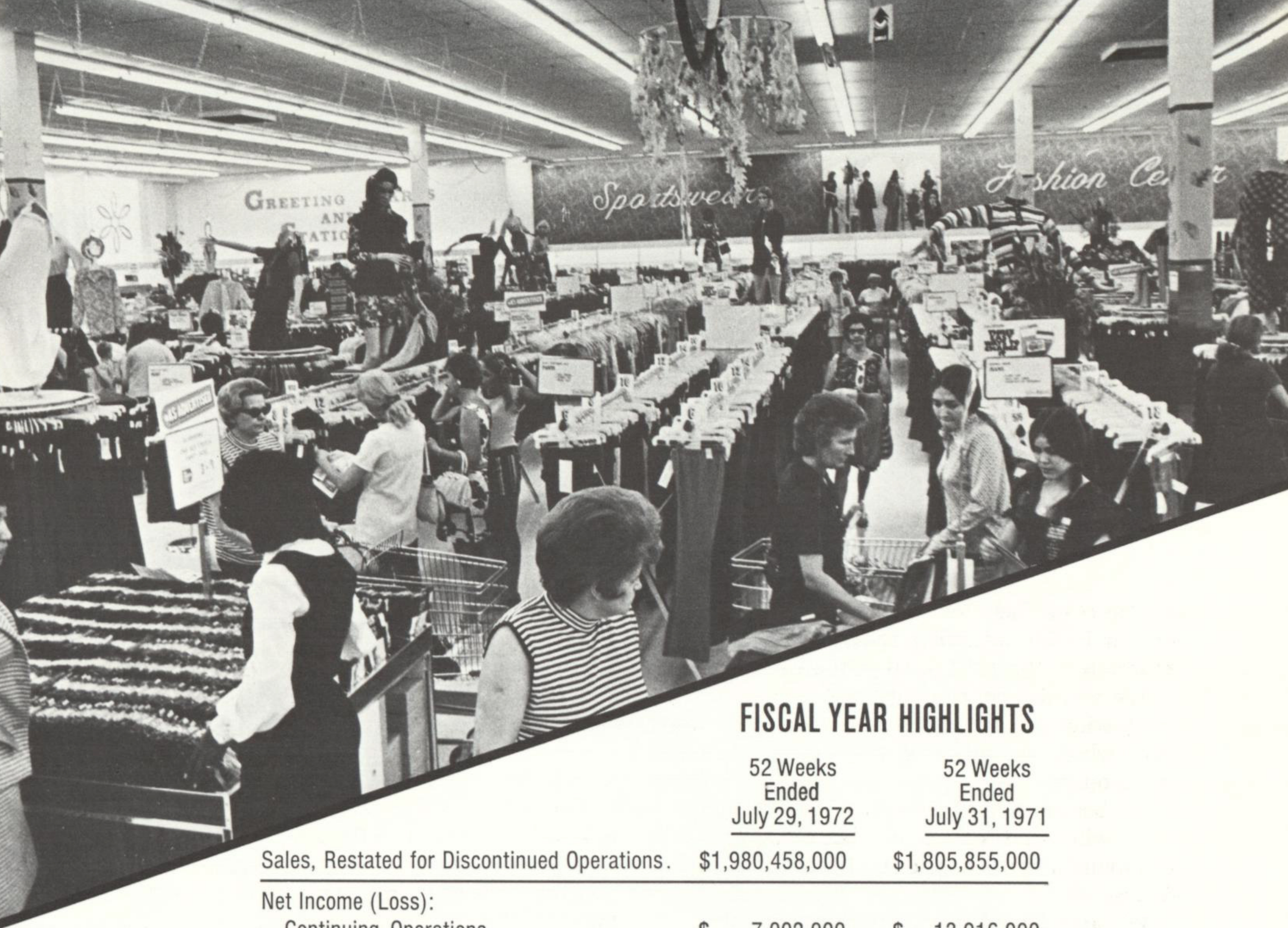
Sincerely,

Louis Stein   Jack Friedland

Louis Stein
Chairman

Jack Friedland
President

October 27, 1972



FISCAL YEAR HIGHLIGHTS

	52 Weeks Ended July 29, 1972	52 Weeks Ended July 31, 1971
Sales, Restated for Discontinued Operations	$1,980,458,000	$1,805,855,000
Net Income (Loss):		
Continuing Operations	$ 7,002,000	$ 13,916,000
Discontinued Operations	(5,451,000)	(3,066,000)
Income Before Extraordinary Items	$ 1,551,000	$ 10,850,000
Extraordinary Items:		
Provision for Losses Relating to Discontinued Operations	($ 2,949,000)	—
Tax Benefit of Loss Carryover	—	$ 549,000
Net Income (Loss)	($ 1,398,000)	$ 11,399,000
Income (Loss) Per Share of Common Stock:		
Continuing Operations	$ .93	$ 1.86
Discontinued Operations	($ .73)	($ .41)
Extraordinary Items	($ .40)	$ .07
Net Income (Loss)	($ .20)	$ 1.52
Cash Dividends	$ 4,113,000	$ 6,658,000
Earnings Retained	($ 5,511,000)	$ 4,741,000
Current Assets	$ 273,769,000	$ 260,470,000
Current Liabilities	$ 162,051,000	$ 131,708,000
Shareholders' Equity	$ 134,506,000	$ 140,037,000

Financial Review

Sales and Earnings

Consolidated sales for the fiscal year from continuing operations rose 10% to a record \$1,980,458,000 from \$1,805,855,000 the year before.

Income from continuing operations was \$7,002,000, equal to 93 cents a share, on the 7,408,214 common shares outstanding at year end. This compares with \$13,916,000, or \$1.86 a share, on the same share basis in fiscal 1971.

The decline in operating earnings was due, in large part, to a supermarket price war in our major marketing areas. In order to maintain our sales, we were required to reduce gross profit margins at a time of higher labor costs and increased store expenses.

The loss from discontinued operations of \$5,451,000, equal to 73 cents a share, further reduced earnings. This writeoff covered losses incurred in our supermarket operation on the west coast and a joint venture with the Horn & Hardart Baking Company of Philadelphia.

An extraordinary item of \$2,949,000, equal to 40 cents a share, covering losses estimated to be incurred in the future in terminating these operations has also been reflected in net income for the 1972 fiscal year.

Dividends

On March 2, 1972, the Directors enacted a new dividend policy on the common stock, effective April 1, 1972. The new dividend program provided for an annual cash dividend of 20 cents a share and a 4% stock dividend, in lieu of the 90 cents a share that had been

paid. The new program was adopted to conserve cash during a period of extensive development for the Company.

Payment of the annual dividend of $4.20 on the cumulative preferred stock continued unchanged.

Financial Position

The Company's financial position is sound, with working capital adequate to meet requirements. Current ratio at year end was 1.7 to 1.0.

Capitalization

Common stock outstanding at July 29, 1972, amounted to 7,408,214 shares compared with 7,262,955 shares the year before. The increase in shares resulted from a 2% stock dividend paid July 1, 1972.

During the year, the Company retired 310 shares of preferred stock in fulfilling its sinking fund obligations.

Supermarket Operations

Supermarket sales continued to climb, despite intense price competition in our major marketing areas. At year end, we were operating 480 food stores.

Discounting continued as the prevailing theme in our supermarket operations. During the year, 21 new supermarkets were opened and 46 conventional stores were converted to discounting operations. These stores, geared for large volume sales, are known as Pantry Pride and Food Fair Quality/Discount.

The new markets are larger in size, ranging upward to 35,000 square feet with 22,000 to 25,000 square feet of sales area. They offer a much wider range and variety of general merchandise including housewares, soft goods, and health and beauty aids which traditionally offer higher profit margins than food.

Responsive to consumer requests, the Company has introduced a unit pricing system

and a freshness dating program. Unit pricing provides shoppers with the price per pound or other appropriate unit, in addition to the selling price of an item, to allow for value comparison. Open dating on many items, formerly coded for retailer use only, gives the last date the item may be sold . . . a further assurance of freshness and quality to the consumer.

Increasing emphasis has also been placed on expansion of our own private label merchandise. Private label items, which can be purchased only in our markets, compare favorably in quality with national brands, and offer a saving to consumers and a higher profit margin to us.

Many private label items were introduced in the last year, with some 30 new items being developed for introduction during the new fiscal year.

Stringent controls and improved productivity are the keys to higher profitability, in the face of increased labor and operating costs, and intense price competition. Through the use of computer technology, electronic communication, and continuing studies of work methods and materials handling, new and improved systems for ordering, delivery and stocking of stores have been undertaken.

Sharing ecologists' concern over waste disposal has prompted the Company to install cardboard compactors and balers in new supermarkets. These machines eliminate many of the problems previously created by storage and disposal of cardboard through incineration and/or trash removal. Cardboard recycling is made convenient and profitable.

Department Store Operations

Eleven J. M. Fields discount department stores were opened in the fiscal year, bringing to 79 the number in operation in 11 eastern seaboard states. One unit closed by fire early in the fiscal year was rebuilt and reopened late in the fiscal year.

Of the 11 new stores, six are in Florida, two each in New Jersey and Pennsylvania, and one in Virginia. All but one are in locations with a Pantry Pride or Food Fair supermarket.

These one-level, self-service, central-checkout stores operate at lower gross profit margins than conventional department stores and thus can offer quality merchandise at lower prices.

A typical J. M. Fields store covers 100,000 square feet of space and includes among its wide variety of merchandise small and major appliances, clothing, shoes, toys, giftware, health and beauty aids, hardware, housewares, photo supplies and cameras, and sporting goods. Many include prescription pharmacies. A "do-it-yourself" center is now being incorporated into new units.

Continued growth in sales as well as earnings is expected in the 1973 fiscal year.

Washington Square Life Insurance Company

Washington Square, which was organized originally to sell life insurance to employees through payroll deduction, has evolved through the years into a national insurance marketing organization with 90% of current sales coming from sources outside the Company. In the last fiscal year, this wholly-owned subsidiary set new records for insurance written and insurance in force.

In addition to group life, individual life, credit life and disability insurance, Washington Square markets through dually-licensed registered representatives a balanced investment program which provides a combination of life insurance and investments in mutual funds.

The Company has recently undertaken, on a test basis, a direct mail offering of hospital income policies, and is becoming active in direct mail sales of life insurance policies.

MGS Incentives Company

This subsidiary is a national sales promotion agency which creates and sells premium and incentive motivation programs to industry. Many major U.S. industrial corporations are numbered among its clients.

In addition to creative services and merchandise awards, MGS offers a complete travel and tour package for individual or group participation.

MGS is headed by Harold H. Rubin who was recently promoted to president. Mr. Rubin was previously vice president and general manager.

Leased Shoe Departments

Through a subsidiary, the Company operated 91 leased shoe departments in retail outlets throughout the U.S., including departments in J. M. Fields stores. The number of these departments increased from 86 the year before.

Amterre Development Inc

The Company has a 40% investment in Amterre Development Inc (formerly Food Fair Properties, Inc.), a diversified real estate development company that established new income records last year. The Company's share of Amterre's earnings is consolidated in our net income.

Amterre operates 48 shopping centers and other income-producing real estate with gross leasable area of 11 million square feet.

Originally, Amterre was involved exclusively in the development and operation of shopping centers. In recent years, it has diversified its operations to also include office buildings, industrial parks and motor inns.

STATISTICAL SUMMARY

Food Fair Stores, Inc. and Subsidiaries

(all dollar figures are in thousands, except per share amounts)

	FISCAL YEAR (a)				
	1972	1971	1970	1969(b)	1968
Sales, restated for discontinued operations	$1,980,458	$1,805,855	$1,649,790	$1,458,072	$1,279,657
Net income (loss):					
Continuing operations	$ 7,002	$ 13,916	$ 12,013	$ 11,650	$ 11,088
Discontinued operations	($ 5,451)	($ 3,066)	($ 1,213)	($ 63)	($ 217)
Income before extraordinary items	$ 1,551	$ 10,850	$ 10,800	$ 11,587	$ 10,871
Income per share of common stock	$ .20	$ 1.45	$ 1.45	$ 1.56	$ 1.46
Extraordinary items:					
Provision for losses relating to discontinued operations	($ 2,949)	—	—	—	—
Tax benefit of loss carryover	—	$ 549	$ 167	$ 680	$ 61
Net income (loss)	($ 1,398)	$ 11,399	$ 10,967	$ 12,267	$ 10,932
Net income (loss) per share of common stock	($ .20)	$ 1.52	$ 1.47	$ 1.66	$ 1.47
Cash dividends	$ 4,113	$ 6,658	$ 6,645	$ 6,602	$ 6,595
Earnings retained	($ 5,511)	$ 4,741	$ 4,322	$ 5,665	$ 4,337
Depreciation	$ 17,310	$ 15,814	$ 14,167	$ 12,761	$ 12,172
Current assets	$ 273,769	$ 260,470	$ 238,805	$ 210,237	$ 186,629
Current liabilities	$ 162,051	$ 131,708	$ 134,203	$ 112,504	$ 97,254
Shareholders' equity	$ 134,506	$ 140,037	$ 135,405	$ 126,681	$ 119,611
Stores at year-end, exclusive of terminated West Coast operations	559	563	567	587	574

(a) 1968 and 1969 fiscal years ended April 30; 1970, 1971 and 1972 fiscal years ended July 31.

(b) 53 weeks

Consolidated Statement of

FINANCIAL CONDITION

Food Fair Stores, Inc. and Subsidiaries

July 29, 1972 and July 31, 1971

ASSETS	**1972**	1971
Current assets:		
Cash	**$ 16,314,000**	$ 16,033,000
Marketable securities, at cost	**467,000**	487,000
Accounts receivable, net of allowance for doubtful accounts: 1972, $1,137,000; 1971, $1,026,000	**68,598,000**	58,028,000
Inventories, at lower of cost (first-in, first-out or average) or market	**171,875,000**	173,123,000
Prepaid expenses	**9,757,000**	10,043,000
Real estate in the process of development and sale, net of payments received on account: 1972, $7,900,000; 1971, $7,475,000	**573,000**	2,756,000
Income tax refunds receivable	**6,185,000**	
Total current assets	**273,769,000**	260,470,000
Future Federal income tax benefits (Note 8)	**5,227,000**	
Investments:		
Affiliates, at equity:		
Amterre Development, Inc. (Note 3)	**8,915,000**	8,355,000
Other subsidiaries (Note 1)	**3,768,000**	3,529,000
Other, at cost	**1,933,000**	1,824,000
	14,616,000	13,708,000
Property, plant and equipment, at cost:		
Land	**11,365,000**	12,731,000
Buildings and improvements	**52,316,000**	53,103,000
Fixtures and equipment	**138,571,000**	133,470,000
	202,252,000	199,304,000
Less accumulated depreciation	**81,146,000**	80,005,000
	121,106,000	119,299,000
Other assets:		
Prepaid expenses, not current	**8,942,000**	7,006,000
Miscellaneous	**4,428,000**	4,493,000
	13,370,000	11,499,000
	$428,088,000	$404,976,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
Current liabilities:		
Notes payable	**$ 39,804,000**	$ 16,135,000
Current portion of long-term debt (Note 4)	**4,338,000**	3,156,000
Accounts payable	**76,844,000**	75,498,000
Accrued salaries and expenses	**35,538,000**	31,843,000
Federal and state income taxes	**5,527,000**	5,076,000
Total current liabilities	**162,051,000**	131,708,000
Long-term debt, net of current portion (Note 4)	**116,521,000**	121,528,000
Liability for redemption of trading stamps, less portion included in accrued expenses	**975,000**	1,225,000
Deferred Federal income taxes	**13,428,000**	9,995,000
Minority interest in subsidiaries	**607,000**	483,000
Shareholders' equity:		
Preferred stock (Note 5)	**2,805,000**	2,836,000
Common stock (Notes 1 and 6)	**7,408,000**	7,263,000
Capital in excess of par (Notes 1 and 7)	**49,507,000**	47,425,000
Retained earnings (Notes 1 and 4)	**74,786,000**	82,513,000
	134,506,000	140,037,000
	$428,088,000	$404,976,000

See notes to consolidated financial statements.

Consolidated Statement of

INCOME

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 29, 1972 and July 31, 1971

	1972	1971
Sales	**$1,980,458,000**	$1,805,855,000
Cost of sales	**1,611,094,000**	1,452,985,000
Gross profit	**369,364,000**	352,870,000
Operating expenses	**351,995,000**	320,077,000
Income from operations	**17,369,000**	32,793,000
Equity in earnings of unconsolidated subsidiaries	**872,000**	717,000
Other income	**1,373,000**	970,000
Income before interest expense	**19,614,000**	34,480,000
Interest expense	**8,744,000**	8,154,000
Income before income taxes and minority interest	**10,870,000**	26,326,000
Income taxes (Note 8)	**3,698,000**	12,255,000
Income before minority interest	**7,172,000**	14,071,000
Minority interest in net income of subsidiaries	**170,000**	155,000
Income from continuing operations before extraordinary items	**7,002,000**	13,916,000
Loss from discontinued operations (Note 2)	**(5,451,000)**	(3,066,000)
Income before extraordinary items	**1,551,000**	10,850,000
Extraordinary items (Note 2)	**(2,949,000)**	549,000
Net income (loss)	**($ 1,398,000)**	$ 11,399,000
Income (loss) per share of common stock (Note 9):		
Continuing operations	**$.93**	$1.86
Discontinued operations	**(.73)**	(.41)
Extraordinary items	**(.40)**	.07
Net income (loss)	**($.20)**	$1.52

See notes to consolidated financial statements.

Consolidated Statement of

RETAINED EARNINGS

Food Fair Stores, Inc. and Subsidiaries

Fifty-two weeks ended July 29, 1972 and July 31, 1971

	1972	1971
Retained earnings, beginning of period	**$82,513,000**	$77,772,000
Net income (loss) for the fifty-two weeks	**(1,398,000)**	11,399,000
	81,115,000	89,171,000
Deduct:		
Cash dividends:		
Preferred Stock	**118,000**	121,000
Common Stock	**3,995,000**	6,537,000
2% Stock dividend	**2,216,000**	
	6,329,000	6,658,000
Retained earnings, end of period	**$74,786,000**	$82,513,000

See notes to consolidated financial statements.

Consolidated Statement of

CHANGES IN FINANCIAL POSITION

Food Fair Stores, Inc. and Subsidiaries

Fifty-Two Weeks Ended July 29, 1972 and July 31, 1971

	1972	1971
Source of funds:		
Income before extraordinary items	**$ 1,551,000**	$10,850,000
Add (deduct) items not affecting working capital:		
Depreciation, straight-line method	**17,310,000**	15,814,000
Amortization of other assets	**270,000**	270,000
Deferred income taxes	**3,433,000**	1,271,000
Gain on sales of noncurrent assets	**(2,778,000)**	(1,369,000)
Undistributed earnings of unconsolidated subsidiaries	**(872,000)**	(717,000)
Future Federal income tax benefits	**(5,227,000)**	
Working capital provided from operations	**13,687,000**	26,119,000
Extraordinary items	**(2,949,000)**	549,000
Disposition of property, plant and equipment	**14,984,000**	8,617,000
Additional long-term debt	**2,306,000**	39,334,000
	28,028,000	74,619,000
Application of funds:		
Purchase of property, plant and equipment	**31,323,000**	35,254,000
Goodwill acquired		1,839,000
Repayment of long-term debt	**7,313,000**	5,153,00
Payment of cash dividends	**4,113,000**	6,658,000
Other items	**2,323,000**	1,555,000
	45,072,000	50,459,000
Increase (decrease) in working capital	**($17,044,000)**	$24,160,000
Summary of net change in working capital:		
Increase (decrease) in current assets:		
Cash	**$ 281,000**	($ 2,732,000)
Marketable securities	**(20,000)**	26,000
Accounts receivable	**10,570,000**	3,969,000
Inventories	**(1,248,000)**	21,993,000
Prepaid expenses	**(286,000)**	329,000
Real estate in the process of development and sale, net	**(2,183,000)**	(1,920,000)
Federal income tax refunds receivable	**6,185,000**	
	13,299,000	21,665,000
Decrease (increase) in current liabilities:		
Notes payable	**(23,669,000)**	18,600,000
Current portion of long-term debt	**(1,182,000)**	(687,000)
Accounts payable	**(1,346,000)**	(11,317,000)
Accrued salaries and expenses	**(3,695,000)**	(2,925,000)
Income taxes	**(451,000)**	(1,176,000)
	(30,343,000)	2,495,000
Increase (decrease) in working capital	**($17,044,000)**	$24,160,000

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifty-two Weeks Ended July 29, 1972

1. The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and its majority owned subsidiaries, except its wholly owned life insurance company.

Investments in the life insurance company and in 50% owned companies are stated at the Company's equity in net assets.

On July 1, 1972, the Company paid a 2% common stock dividend. In this connection, an amount of $2,216,000 was transferred from retained earnings, $146,000 to common stock and $2,070,000 to capital in excess of par. All share and per share data in the consolidated financial statements have been retroactively adjusted for this dividend.

The consolidated statements of income and changes in financial position for fiscal 1971 have been restated to give effect to the discontinuance of operations described in Note 2.

2. During fiscal 1972, the Company discontinued its West Coast supermarket operations and certain food processing operations. The related operating losses are included in loss from discontinued operations, which are summarized as follows:

	1972	1971
Sales and other income	$104,251,000	$122,344,000
Costs and expenses	111,816,000	128,087,000
	(7,565,000)	(5,743,000)
Income tax reductions	2,114,000	2,677,000
Discontinued operations, net	($ 5,451,000)	($ 3,066,000)

The Company has provided $2,949,000, net of income tax reduction of $2,722,000, for additional losses expected to be incurred in connection with the disposal of the related assets and the final termination of the operations described above. This provision has been reported as an extraordinary item in fiscal 1972.

The extraordinary item for fiscal 1971 is the tax benefit arising from net operating loss carryovers.

3. In the year ended July 31, 1971, the Company changed its method of accounting for its investment in Amterre Development, Inc. (name changed from Food Fair Properties, Inc.) from the cost, to the equity method in accordance with Opinion No. 18 of the Accounting Principles Board.

The Company owns all of the preferred stock and 40% of the common stock of Amterre Development, Inc. At July 29, 1972, the aggregate value of this preferred stock was $2,000,000 and the aggregate market value of this common stock was $13,333,000, based on a quoted bid price of $4 per share.

Net earnings of Amterre Development, Inc. included in the consolidated statement of income were $520,000 ($.07 per share) in 1972 and $444,000 ($.06 per share) in 1971.

The consolidated financial statements of Amterre Development, Inc. and its subsidiaries are as follows:

(000 omitted, except per share amounts)

Consolidated financial position	December 31, 1971	1970
Assets		
Investment in property and equipment at cost, net of depreciation	$218,993	$166,624
Other	11,269	8,952
	$230,262	$175,576
Liabilities		
Notes, mortgages and debentures payable	$162,198	$104,305
Construction loans payable	33,953	38,075
Other	14,874	15,360
	211,025	157,740
Shareholders' equity	19,237	17,836
	$230,262	$175,576

Consolidated statement of income	Years ended December 31, 1971	1970
Income	$ 26,671	$ 18,301
Net expenses	24,495	15,866
Income before income taxes	2,176	2,435
Income taxes	659	1,122
Net income	$ 1,517	$ 1,313
Earnings per common share and common share equivalent	$.17	$.14

4. Long-term debt at July 29, 1972 is as follows:

	Rate	Due within one year	Due after one year	Final maturity
Notes, banks	5—8.5%	$2,650,000	$25,778,000	1974-1976
Notes, other	4—8.5%	634,000	2,192,000	1972-1983
Mortgages	4—8.5%	574,000	3,712,000	1973-1995
Sinking fund debentures	3.375%		7,681,000	1974
Convertible subordinated notes	4%	480,000	1,920,000	1977
Subordinated debentures, net of bonds in treasury of $466,000	4%		15,238,000	1979
Subordinated notes	8.5%		25,000,000	1984
Sinking fund debentures	8.375%		35,000,000	1996
		$4,338,000	$116,521,000	

Sinking fund debentures (3.375%) require semi-annual sinking fund payments of $500,000 through March 1, 1974. The sinking fund requirements for the year ending July 28, 1973 have been anticipated.

Convertible subordinated notes (4%) are convertible into common stock at $25 per share through May 12, 1977. These notes require annual principal payments of $480,000 beginning May 12, 1973.

Subordinated debentures (4%) require annual sinking fund payments of $967,000. The sinking fund requirements for the year ending July 28, 1973 have been anticipated.

Subordinated notes (8.5%) require annual payments of $2,000,000 beginning December 1, 1974.

Sinking fund debentures (8.375%) require annual sinking fund payments of $1,750,000 commencing January 15, 1977.

The indentures covering the issuance of the debentures and notes described above contain restrictions as to the payment of cash dividends and the redemption of shares of stock of the Company. The maximum amount of retained earnings so restricted at July 29, 1972 was $61,714,000.

5. Preferred stock is $4.20 cumulative, $15 par; 108,190 shares are authorized, of which 28,048 are issued and outstanding. The Company is obligated to set aside $120,000 semi-annually as a sinking fund for the redemption of the preferred stock, which may be called for this purpose at $100 per share plus accrued dividends.

6. Common stock is $1 par; 10,000,000 shares are authorized, of which 7,409,234 are issued, 1,020 are held in the Company's treasury and 7,408,214 are outstanding.

At July 29, 1972, options were outstanding to purchase 25,500 shares of common stock at $21.56 per share expiring April 16, 1974.

At July 29, 1972, warrants to purchase 400,000 shares of common stock were outstanding. These warrants are exercisable at $23.52 per share and expire December 17, 1979.

7. The increase in capital in excess of par during the year ended July 29, 1972, is comprised of the following:

Excess of stated value over cost of cumulative preferred stock retired	$ 11,000
Excess of market value over par of 145,279 shares of common stock issued in connection with 2% stock dividend	2,071,000
	$2,082,000

8. Income taxes are comprised of the following:

	Fifty-two weeks ended July 29, 1972	July 31, 1971
Federal:		
Current	$ 74,000	$ 8,425,000
Deferred	3,433,000	2,266,000
Future tax benefits	(391,000)	
State	582,000	1,564,000
	$ 3,698,000	$12,255,000

Investment tax credits, not material in amount, have been applied as a reduction of Federal income taxes. At July 29, 1972, there are investment tax credit carryovers of approximately $2,700,000.

Future Federal income tax benefits relate to operating loss deductions of subsidiaries liquidated or to be liquidated into the parent company and to the loss from discontinued operations and the related extraordinary charge.

9. Income per share of common stock is based on weighted average number of shares outstanding during the years. Options, warrants and convertible subordinated notes have no dilutive effect.

10. The Federal income tax returns of the Company and all significant subsidiaries have been examined by Internal Revenue Service through 1964. The returns of certain subsidiaries have been examined through 1968. As a result of these examinations, the Internal Revenue Service has proposed tax deficiencies which the companies are protesting. In the opinion of management, based on advice of tax counsel, the final net additional tax will not have a material effect on shareholders' equity.

11. The Company and its subsidiaries have several noncontributory pension plans covering certain hourly and salaried employees. Pension expense for the years ended July 29, 1972 and July 31, 1971 was $1,255,000 and $1,230,000, respectively, and includes amortization of prior service cost of $3,734,000 over a forty year period. The Company's policy is to fund pension costs accrued. The total assets of the plans exceeded the actuarially computed value of vested benefits.

12. The Company rents the majority of the premises occupied. Lease terms generally range to twenty-five years with options of renewal for additional periods. At July 29, 1972, the minimum annual rental for such premises amounted to approximately $36,000,000 plus, in some instances, certain taxes, insurance and other expenses.

13. The Company and its subsidiaries are defendants in a number of lawsuits and claims. It is the judgment of management, based on opinions of counsel as to the merits of these suits and claims, that the final disposition of these matters will not have a material effect on shareholders' equity.

LAVENTHOL KREKSTEIN HORWATH & HORWATH

CERTIFIED PUBLIC ACCOUNTANTS
1845 WALNUT STREET
PHILADELPHIA, PA 19103
215-491-1700
OFFICES THROUGHOUT THE WORLD

To the Board of Directors and Shareholders
Food Fair Stores, Inc.

We have examined the consolidated statement of financial condition of Food Fair Stores, Inc. and Subsidiaries as at July 29, 1972 and July 31, 1971, and the related consolidated statements of income, retained earnings and changes in financial position for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Food Fair Stores, Inc. and Subsidiaries at July 29, 1972 and July 31, 1971, and the results of their operations and changes in financial position for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Laventhol Krekstein Horwath & Horwath

Laventhol Krekstein Horwath & Horwath

October 24, 1972

DIRECTORS

D. Frederick Barton
Limited Partner,
Blyth Eastman Dillon & Co.

William P. Davis, III
Vice Chairman
The First Pennsylvania
Banking & Trust Co.

George Friedland
Former Vice Chairman and
President

Harold Friedland
Vice President

Jack Friedland
President

Samuel Friedland
Chairman of the
Executive Committee

Hess Kline
Former Vice President
and Treasurer

Samuel P. Mandell
Vice President

Myer B. Marcus
Vice Chairman of the Board

Arthur S. Rosenberg
Senior Vice President

Herman R. Silver
Vice President

Louis Stein
Chairman of the Board

W. Paul Stillman
Chairman
The First National State
Bank of New Jersey

CORPORATE OFFICERS

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Chairman of the Board
Chairman of the
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Vice Chairman of the Board

Jack Friedland
President
Chief Executive Officer

Arthur S. Rosenberg
Senior Vice President

David T. Friedland
Vice President
Director of Store Operations

Harold Friedland
Vice President
Director of Buying and
Merchandising

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Vice President
President, J. M. Fields, Inc.

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Vice President
Director of Industrial Relations

Samuel P. Mandell
Vice President
Director of Manufacturing

Seymour G. Mandell
Vice President
Director of Produce Operations

Joseph H. Rash
Vice President
Director of Maryland and
Virginia Operations

Herman R. Silver
Vice President
Director of Meat Operations

S. Robert Silverman
Vice President
Director of Distribution

Stanley E. Zimmerman
Vice President
Director of Development

B. F. Lieber
Secretary and Treasurer

Leo Dicandilo
Assistant Secretary

Samuel Forman
Assistant Secretary

Edmond O'Neill
Assistant Secretary

Leonard Stubins
Assistant Secretary

DIVISIONAL OFFICERS

Retail Food Stores

Herbert Carlis
Vice President,
Baltimore Division

Leo Finkelstein
Vice President,
Southern Division

Frank N. James
Vice President,
Jacksonville Division

Jack Millman
Vice President,
Philadelphia Division

Herman Stein
Vice President,
Linden Division

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Vice President,
Norfolk-Richmond Division

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J. M. Fields, Inc.

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President

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Executive Vice President

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Ideal Shoe Company

Leonard Pasternak
President

Alexander Aezen
Vice President

MGS Incentives Company

Harold H. Rubin
President

Washington Square
Life Insurance Co.

Kenneth Jacoby
Executive Director

Stanley Channick
Vice President

Lawrence Tornek
Vice President

EXECUTIVE OFFICES *3175 John F. Kennedy Blvd., Philadelphia, Penna. 19101*

GENERAL COUNSEL *Stein & Rosen, New York, New York*

TRANSFER AGENT *Registrar & Transfer Company, New York, New York*

REGISTRAR *The Chase Manhattan Bank N. A., New York, New York*

CERTIFED PUBLC ACCOUNTANTS *Laventhol Krekstein Horwath & Horwath, Philadelphia, Penna.*

Food Fair Stores, Inc. Annual Report 1972

3175 John F. Kennedy Blvd.
Philadelphia, Pennsylvania 19101